

Financial Statements

Covenant House New Orleans

*Year ended June 30, 2001 with summarized financial information for the year ended June 30, 2000 with Report of Independent Auditors*



Under provisions of state law, this report is a public document. A copy of the report has been submitted to the entity and other appropriate public officials. The report is available for public inspection at the Baton Rouge office of the Legislative Auditor and, where appropriate, at the office of the parish clerk of court.

Release Date 2/6/02

**Covenant House New Orleans**

**Financial Statements**

Year ended June 30, 2001 with summarized  
financial information for the year ended June 30, 2000

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## Report of Independent Auditors

The Board of Directors  
Covenant House New Orleans

We have audited the accompanying statement of financial position of Covenant House New Orleans as of June 30, 2001, and the related statements of activities, functional expenses, and cash flows for the year then ended. These financial statements are the responsibility of Covenant House New Orleans' management. Our responsibility is to express an opinion on these financial statements based on our audit. The prior year summarized comparative information has been derived from the June 30, 2000 financial statements and, in our report dated September 1, 2000, we expressed an unqualified opinion on those financial statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Covenant House New Orleans at June 30, 2001, and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States.

*Ernst & Young LLP*

September 14, 2001

Covenant House New Orleans  
Statements of Financial Position

	June 30	
	2001	2000
<b>Assets</b>		
Cash and cash equivalents	\$ 303,585	\$ 245,640
Contributions receivable - short-term, net of allowances of \$11,222 and \$25,827 as of June 30, 2001 and 2000, respectively	81,692	109,307
Grants receivable	351,303	219,564
Other receivables	39,555	15,375
Contributed inventory	3,551	3,551
Prepaid expenses and other assets	219,635	176,668
Land, building, and equipment, net of accumulated depreciation of \$1,318,741 in 2001 and \$1,224,148 in 2000	1,002,380	1,072,939
Long-term investments	933,059	1,167,917
Total assets	<u>\$ 2,934,760</u>	<u>\$ 3,010,961</u>
<b>Liabilities and net assets</b>		
<b>Liabilities:</b>		
Accounts payable and accrued expenses	\$ 342,659	\$ 260,658
Due to Parent	47,903	93,257
Refundable advances	95,274	9,699
Total liabilities	<u>485,836</u>	<u>363,614</u>
<b>Net assets:</b>		
Unrestricted:		
Board designated	1,312,218	1,543,206
Investment in land, building, and equipment	1,002,380	1,072,938
Total unrestricted net assets	<u>2,314,598</u>	<u>2,616,144</u>
Temporarily restricted - designated projects	134,326	31,203
Total net assets	<u>2,448,924</u>	<u>2,647,347</u>
Total liabilities and net assets	<u>\$ 2,934,760</u>	<u>\$ 3,010,961</u>

*See accompanying notes.*

# Covenant House New Orleans

## Statement of Activities

Year ended June 30, 2001 with summarized  
financial information for the year ended June 30, 2000

	Unrestricted	Temporarily Restricted Designated Projects	Total June 30	
			2001	2000
Contributions, revenue, and reclassifications:				
Contributions:				
Contribution from Parent	\$ 664,843	\$ —	\$ 664,843	\$ 660,000
Contributions from individuals, foundations, and corporations, including legacies and bequests totaling \$61,038 in 2001 and \$118,545 in 2000	2,589,750	132,807	2,722,557	2,754,825
Government grants and contracts	1,316,642	—	1,316,642	845,871
Contributed services and merchandise, including inventory adjustments	194,483	—	194,483	111,382
Special events revenue, net of direct costs of \$32,873 in 2001 and \$39,799 in 2000	25,555	—	25,555	27,727
Total contributions	4,791,273	132,807	4,924,080	4,399,805
Revenue:				
Investment income (loss)	(53,410)	—	(53,410)	110,472
Other income	39,507	—	39,507	79,509
Total revenue	(13,903)	—	(13,903)	189,981
Total contributions and revenue	4,777,370	132,807	4,910,177	4,589,786
Reclassifications:				
Net assets released from restrictions	29,684	(29,684)	—	—
Total contributions, revenue, and reclassifications	4,807,054	103,123	4,910,177	4,589,786
Expenses:				
Program services	3,909,770	—	3,909,770	3,617,465
Supporting services:				
Management and general	540,871	—	540,871	510,797
Fund-raising	657,959	—	657,959	634,493
Total supporting services	1,198,830	—	1,198,830	1,145,290
Total expenses	5,108,600	—	5,108,600	4,762,755
Change in net assets	(301,546)	103,123	(198,423)	(172,969)
Net assets, at beginning of year	2,616,144	31,203	2,647,347	2,820,316
Net assets, at end of year	\$ 2,314,598	\$ 134,326	\$ 2,448,924	\$ 2,647,347

See accompanying notes.

# Covenant House New Orleans

## Statement of Functional Expenses

Year ended June 30, 2001 with summarized  
financial information for the year ended June 30, 2000

	Program Services					
	Shelter and Crisis	Medical	Mother/ Child	Community Service Center	Rights of Passage	Outreach
Salaries and wages	\$ 708,312	\$ 51,500	\$ 284,872	\$ 663,978	\$ 360,531	\$ 20,227
Payroll taxes	65,827	4,850	26,399	60,480	32,666	1,873
Employee benefits	109,630	383	45,467	60,020	41,331	2,177
Total salaries and related expenses	883,769	56,733	356,738	784,478	434,528	24,277
Faith community costs	10,576	—	3,912	763	—	—
Legal fees	629	32	232	191	282	—
Medical fees	—	33,094	—	735	2,942	—
Consulting fees	7,637	8,506	2,825	26,607	5,074	—
Accounting fees	—	—	—	—	—	—
Supplies	34,914	2,457	13,331	17,426	12,342	506
Telephone	9,425	468	3,641	6,912	8,754	508
Postage, printing, and mailing lists	1,116	73	472	1,342	568	79
Occupancy:						
Fuel and utilities	57,500	1,326	23,600	27,538	56,679	—
Repairs and maintenance	17,175	1,661	6,352	8,813	9,161	—
Rent and other	85,271	3,453	33,858	20,321	91,688	—
Equipment	22,150	321	8,290	28,997	7,442	—
Transportation	16,912	1,179	6,255	21,040	9,341	8,368
Specific assistance to individuals:						
Food	52,639	—	19,469	661	8,715	196
Medical	—	8,883	129	305	898	—
Donated medical	—	5,078	—	112	448	—
Clothing, allowances, and other	16,274	196	6,376	4,638	12,309	—
Donated clothing, and merchandise	34,778	—	14,843	1,354	6,171	—
Temporary help	2,279	144	843	391	1,187	—
Other purchased services	10,858	493	4,087	26,793	3,400	—
Dues, licenses, and permits	1,602	393	638	720	633	—
Subscriptions and publications	2,447	89	905	3,241	941	—
Staff recruitment	1,876	828	694	706	755	1,962
Insurance	14,120	570	5,480	4,956	9,024	—
Donated services	29,717	78,309	10,991	2,688	8,591	—
Miscellaneous	2,324	104	953	2,087	2,209	—
Bank charges and fees	—	—	—	—	—	—
Total functional expenses before depreciation and amortization	1,315,988	204,390	524,914	993,815	694,082	35,896
Depreciation and amortization	17,613	1,199	6,582	41,515	13,384	—
Total functional expenses	1,333,601	205,589	531,496	1,035,330	707,466	35,896
Less direct costs of special events	—	—	—	—	—	—
Total expenses reported by function on statement of activities	\$ 1,333,601	\$ 205,589	\$ 531,496	\$ 1,035,330	\$ 707,466	\$ 35,896



Public Education	Total Programs	Supporting Services		Total	
		Management and General	Fund- Raising	2001	2000
\$ 42,863	\$ 2,132,283	\$ 257,228	\$ 128,753	\$ 2,518,264	\$ 2,279,936
3,453	195,548	21,927	11,096	228,571	199,029
1,535	260,543	38,655	13,422	312,620	314,223
47,851	2,588,374	317,810	153,271	3,059,455	2,793,188
—	15,251	—	—	15,251	99,241
120	1,486	282	112	1,880	1,214
—	36,771	—	—	36,771	4,728
4,489	55,138	10,085	50,098	115,321	57,872
—	—	35,500	—	35,500	34,600
342	81,318	7,013	2,523	90,854	77,277
217	29,925	17,229	5,148	52,302	54,900
3,001	6,651	3,446	369,349	379,446	458,371
—	166,643	20,223	4,269	191,135	163,103
—	43,162	5,822	1,675	50,659	44,438
—	234,591	26,982	5,768	267,341	252,177
577	67,777	16,224	4,411	88,412	82,285
1,881	64,976	7,826	4,071	76,873	61,034
—	81,680	—	—	81,680	90,543
—	10,215	—	—	10,215	9,686
—	5,638	—	—	5,638	6,173
—	39,793	—	—	39,793	27,462
—	57,146	640	329	58,115	33,078
597	5,441	1,056	543	7,040	24,323
9	45,640	9,893	37,288	92,821	71,022
92	4,078	103	1,136	5,317	4,821
126	7,749	397	447	8,593	7,484
—	6,821	611	440	7,872	5,547
713	34,863	4,539	1,304	40,706	36,614
—	130,296	415	19	130,730	72,075
60	7,737	7,634	42,848	58,219	72,778
—	—	30,645	388	31,033	44,453
60,075	3,829,160	524,375	685,437	5,038,972	4,690,487
317	80,610	16,496	5,395	102,501	112,067
60,392	3,909,770	540,871	690,832	5,141,473	4,802,554
—	—	—	(32,873)	(32,873)	(39,799)
\$ 60,392	\$ 3,909,770	\$ 540,871	\$ 657,959	\$ 5,108,600	\$ 4,762,755

See accompanying notes.

# Covenant House New Orleans

## Statements of Cash Flows

	Year ended June 30	
	2001	2000
<b>Operating activities</b>		
Decrease in net assets	\$ (198,423)	\$ (172,969)
Adjustments to reconcile decrease in net assets to net cash used in operating activities:		
Depreciation and amortization	102,501	112,067
Net unrealized gain on investments	(9,585)	(42,267)
(Gain) loss on disposition of equipment	(2,000)15,	707
Contributed building and equipment	(17,822)	(3,300)
Change in operating assets and liabilities:		
Receivables	(128,304)	(142,813)
Contributed inventory	—	(57)
Prepaid expenses and other assets	(42,967)	(40,910)
Accounts payable and accrued expenses	82,001	(3,771)
Refundable advances	85,575	(12,022)
Due to Parent	(45,354)	(82,611)
Net cash used in operating activities	(174,378)	(372,946)
<b>Investing activities</b>		
Acquisition of land, building, and equipment	(14,121)	(32,195)
Proceeds from sale of equipment	2,000	1,100
Proceeds from sale of real estate held for resale	—	56,000
Purchases of long-term investments	(947,765)	(1,118,784)
Sales of long-term investments	1,192,209	1,597,974
Net cash provided by investing activities	232,323	504,095
Net increase in cash and cash equivalents	57,945	131,149
Cash and cash equivalents at beginning of year	245,640	114,491
Cash and cash equivalents at end of year	\$ 303,585	\$ 245,640

See accompanying notes.



## Covenant House New Orleans

### Notes to Financial Statements

June 30, 2001

#### 1. Organization

Covenant House New Orleans is a not-for-profit corporation established in 1984 for the purpose of providing programs for the care and shelter of runaway and homeless youths under the age of 21. Covenant House New Orleans is affiliated with similar organizations in other locations, all of which are affiliates of Covenant House (the Parent), a not-for-profit corporation which provides guidance and support for various activities related to the care of youths. Other affiliated organizations are as follows:

- Covenant House Alaska
- Covenant House California
- Covenant House Florida
- Covenant House Georgia
- Covenant House Michigan
- Covenant House Missouri
- Covenant House New Jersey
- Covenant House Pennsylvania/Under 21
- Covenant House Texas
- Covenant House Washington, D.C.
- Covenant House Western Avenue
- Testamentum
- Under 21
- Covenant International Foundation
- Covenant House Toronto
- Covenant House Vancouver
- Association Casa Alianza (Guatemala)
- Casa Alianza De Honduras
- Casa Alianza Nicaragua
- Casa Alianza Internacional
- Fundacion Casa Alianza Mexico, I.A.P.

Covenant House New Orleans serves youths through the following programs and supporting services:

The *Shelter and Crisis* program provides crisis care, shelter, food, clothing, counseling, and legal advice to abandoned and runaway youths in the New Orleans area.

## Covenant House New Orleans

### Notes to Financial Statements (continued)

#### 1. Organization (continued)

*Medical* services include basic medical services, referrals, HIV testing, and counseling.

*Mother/Child* services include shelter, assessment, counseling, case management, referral, parenting education, and nursery services for mothers and their children while in residence.

*Community Service Center* provides comprehensive services to youths who have left Covenant House affiliates' crisis centers, and other youths in the community who need support to maintain themselves in stable living situations. Within this program, Covenant House New Orleans also provides counseling and intervention services through the City of New Orleans Curfew and Assessment Center and work-related instruction and experience through the White Dove Landscape Training Program.

This program also includes administration fees earned under two agreements that Covenant House entered into with the City of New Orleans. The first agreement is with the New Orleans Workforce Investment Board (NOWIB) and Turning Points Academy, Inc. (TPA) to provide management of the Youth One Stop Center, which allows Covenant House to coordinate and improve education and employment training services of eligible youth. As the primary fiscal agent, Covenant House's role includes oversight of subgrants with various service providers for in-school and out-of-school youth training opportunities. The second agreement allows Covenant House to act as a fiduciary agent and administrator of youth summer employment activities. Covenant House provides orientation, counseling, and assistance in job placements with compensation for approximately 1,000 youth.

*Rights of Passage* provides transitional housing services for up to 24 months to youths, including individual counseling and help with completing their education and finding jobs and housing.

The *Outreach* program is an effort to reach youths who would otherwise not find their way to the shelters. Outreach vans cruise the city streets, searching out these youths and providing them with food, a trained counselor, and a safe ride to a shelter.

## Covenant House New Orleans

### Notes to Financial Statements (continued)

#### 1. Organization (continued)

The *Public Education* program informs and educates the public on how to identify potential “runaway” and “throwaway” adolescents, the public and private resources available to help such adolescents before they leave home, and the public support services available to these families to improve the home environment.

*Management and General* services include administration, finance, and general support activities. Certain administrative costs that relate to specific programs have been allocated to such programs.

*Fund-Raising* services relate to the activities of the development department in raising general and specific contributions.

Covenant House New Orleans is exempt from federal income taxes under Section 501(a) of the Internal Revenue Code as an organization described in Section 501(c)(3). Covenant House New Orleans qualifies as a public charity.

#### 2. Significant Accounting Policies

##### Fund Accounting and Net Asset Classification

To ensure compliance with restrictions placed on the resources available to Covenant House New Orleans, Covenant House New Orleans’ accounts are maintained in accordance with the principles of fund accounting. This is the procedure by which resources are classified for accounting and reporting purposes into funds established according to their nature and purpose. In the financial statements, funds that have similar characteristics have been combined into three net asset categories: permanently restricted, temporarily restricted, and unrestricted.

- Permanently restricted net assets contain donor-imposed restrictions that stipulate the resources be maintained permanently, but permit Covenant House New Orleans to use or expend all of the income derived from the donated assets for unrestricted purposes. Covenant House New Orleans had no permanently restricted net assets at June 30, 2001.

## Covenant House New Orleans

### Notes to Financial Statements (continued)

#### **2. Significant Accounting Policies (continued)**

- Temporarily restricted net assets contain donor-imposed restrictions that permit Covenant House New Orleans to use or expend the assets as specified. The restrictions are satisfied either by the passage of time or by actions of Covenant House New Orleans.
- Unrestricted net assets are not restricted by donors, or the donor-imposed restrictions have expired. As reflected in the accompanying statement of financial position, Covenant House New Orleans' board of directors has designated all unrestricted net assets of Covenant House New Orleans, with the exception of investment in land, building, and equipment, for long-term investment purposes and shortfalls from operational deficiencies.

#### **Functional Expense Allocation**

The majority of expenses can generally be directly identified with the program or supporting service to which they relate and are charged accordingly. Other expenses by function have been allocated among program and supporting service classifications on the basis of square footage of office space occupied, salaries, and other bases determined by Covenant House New Orleans' management.

#### **Revenue Recognition**

Covenant House New Orleans records earned revenues on an accrual basis; investment income is recognized in accordance with policies enumerated below. In addition, Covenant House New Orleans records as revenue the following types of contributions, when they are received unconditionally, at their fair value: cash, promises to give, certain contributed services and gifts of long-lived assets. Substantially all of Covenant House New Orleans' government grants are on the cost reimbursement basis and are considered to be conditional contributions for purposes of applying revenue recognition policies. Conditional contributions are recognized as revenue when the conditions on which they depend have been substantially met. Contributions are recorded net of estimated uncollectible amounts.



## Covenant House New Orleans

### Notes to Financial Statements (continued)

#### **2. Significant Accounting Policies (continued)**

##### **Temporarily Restricted Contributions**

Covenant House New Orleans records contributions as temporarily restricted if they are received with donor stipulations that limit their use either through purpose or time restrictions. When donor restrictions expire, that is, when a time restriction ends or a purpose restriction is fulfilled, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions. It is Covenant House New Orleans' policy to record temporarily restricted contributions received and expended in the same accounting period in the unrestricted net asset class.

Contributions that the donor requires to be used to acquire long-lived assets (e.g., building improvements, furniture, fixtures, and equipment) are reported as temporarily restricted. Covenant House New Orleans reflects the expiration of the donor-imposed restriction when long-lived assets have been placed in service, at which time temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

##### **Cash and Cash Equivalents**

For the purpose of the statement of cash flows, Covenant House New Orleans considers all highly liquid investments purchased with a maturity of three months or less, other than those held in the long-term investment portfolio, to be cash equivalents.

##### **Investments and Investment Income**

Marketable equity securities and debt obligations are carried at quoted market value. Income earned from investments, including realized and unrealized gains and losses, is recorded in the unrestricted net asset class except where the instructions of the donor specify otherwise.

The following methods and assumptions were used by Covenant House New Orleans in estimating its fair value for financial instruments:

*Cash and cash equivalents:* The carrying amounts reported in the statements of financial position for cash and cash equivalents approximate fair value.

## Covenant House New Orleans

### Notes to Financial Statements (continued)

#### **2. Significant Accounting Policies (continued)**

*Common stocks, mutual funds, and debt securities:* Fair values of common stocks, mutual funds, and debt securities are based on quoted market prices.

See Note 4 for additional information regarding investments.

#### **Land, Building, and Equipment**

Land, building, and equipment are recorded at cost if purchased or, if donated, at fair value at the date of the gift, less accumulated depreciation and amortization. Depreciation is computed on the straight-line basis over the estimated useful lives of the assets, ranging from 3 to 5 years for furniture and equipment and 5 to 30 years for building and building improvements. Leasehold improvements are amortized over the lesser of the term of the lease or their estimated useful lives.

#### **Contributed Services and Merchandise**

Contributed services are recognized as revenue if the services received create or enhance nonfinancial assets, require specialized skills provided by individuals possessing those skills, and typically need to be purchased if not provided by donation. Contributed services are recorded at the fair market value of the services provided. Contributed services and promises to contribute services that do not meet the above criteria are not recognized as revenues and are not reported in the accompanying financial statements.

Contributions of clothing and merchandise are valued at the estimated fair market value at the date of receipt and recognized as revenue when received and expensed from inventory when used.

#### **Use of Estimates**

The preparation of the financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amount of assets, liabilities, additions to net assets, and deductions from net assets. Actual results could differ from those estimates.



## Covenant House New Orleans

### Notes to Financial Statements (continued)

#### 2. Significant Accounting Policies (continued)

##### Contributions Receivable

Unconditional pledges to give that are expected to be collected within one year are recorded at net realizable value, net of an allowance of \$11,222 as of June 30, 2001. Unconditional pledges to give that are expected to be collected in future years are recorded at the present value of their estimated future cash flows. For the year ended June 30, 2001, the discounts on those amounts are immaterial, and thus are not recorded.

##### Summarized Financial Information for Fiscal 2000

The accompanying financial statements include certain prior year summarized comparative information in total, but not by net asset class or functional category. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States. Accordingly, such information should be read in conjunction with Covenant House New Orleans' financial statements for the year ended June 30, 2000, from which the summarized information was derived.

#### 3. Long-Term Investments

Long-term investments at June 30, 2001 consisted of:

	<u>Market</u>	<u>Cost</u>
Cash and cash equivalents	\$ 354,099	\$ 354,099
Common stocks	131,322	124,495
Debt securities	447,638	447,523
	<u>\$ 933,059</u>	<u>\$ 926,117</u>

The following schedule summarizes unrestricted investment income for 2001:

Dividends and interest	\$ 42,609
Net realized and unrealized losses	<u>(96,019)</u>
Investment loss designated for current operations	<u>\$ (53,410)</u>

Covenant House New Orleans  
Notes to Financial Statements (continued)

**4. Land, Building, and Equipment**

	<b>June 30 2001</b>
Land	\$ 100,500
Building and improvements	956,212
Furniture and equipment	1,264,409
	<u>2,321,121</u>
Less accumulated depreciation and amortization	1,318,741
	<u><u>\$ 1,002,380</u></u>

**5. Government Grants**

During fiscal 2001, Covenant House New Orleans received funding from government and private agencies as follows:

U.S. Department of Housing and Urban Development	\$ 406,673
U.S. Department of Health and Human Services	114,499
U.S. Department of Justice - Bureau of Justice Assistance	254,972
U.S. Department of Agriculture	35,788
Federal Emergency Management Association	5,397
U.S. Department of Labor	117,440
State/Local Private Agencies	10,000
City of New Orleans Community Development Block Grant	84,657
City of New Orleans General Funds	287,216
	<u><u>\$ 1,316,642</u></u>

**6. Faith Community**

Contributed services were provided by members of the Covenant House Faith Community (Community). Community members are full-time volunteers who commit themselves to a year of service to runaway and homeless youths. Room and board, \$15 per day stipend, health insurance, and reimbursement for other personal expenses are provided to Community members by Covenant House New Orleans. The expenses associated with Community members were approximately \$15,000 for the year ended June 30, 2001, and are reported in the accompanying financial statements. The value of services performed by Community members was approximately \$6,000 in 2001 and was not recognized in the accompanying financial statements.

## Covenant House New Orleans

### Notes to Financial Statements (continued)

#### **7. Related Party Transactions**

The Parent provides financial support as well as management and organizational support for its affiliated organizations. The Parent conducts fund-raising activities for its own programs and the programs of its affiliates for which no amounts are charged. Contributions and promises to give totaled approximately \$54.1 million for the Parent. Fund-raising expenses incurred by the Parent totaled approximately \$14 million. Support from the Parent to all affiliates in fiscal 2001 arising from these activities was approximately \$37.8 million. Of this amount, Covenant House New Orleans received \$665,000.

In addition, the Parent conducts fund-raising activities on behalf of certain affiliates for which costs are allocated to the respective affiliates. Contributions arising from these fund-raising activities are recorded by the respective affiliates. In fiscal year 2001, expenses of \$440,000 were charged by the Parent for such fund-raising activities carried out on behalf of Covenant House New Orleans.

The Parent provides certain of its affiliates with insurance, computer access services, and data software and hardware maintenance. The Parent has allocated expenses of approximately \$69,000 in 2001 related to such services to Covenant House New Orleans.

Covenant House New Orleans leases its program facility from the Parent on a month-to-month basis. Rent paid to the Parent amounted to approximately \$208,000 in fiscal 2001.

Covenant House New Orleans participates in a defined benefit pension plan administered by the Parent. The defined benefit pension plan covers substantially all employees. Total pension cost of \$73,000 was allocated to Covenant House New Orleans from the Parent in fiscal 2001.

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## Report on Compliance and on Internal Control Over Financial Reporting Based on an Audit of the Financial Statements in Accordance With Government Auditing Standards

The Board of Directors  
Covenant House New Orleans

We have audited the financial statements of Covenant House New Orleans as of and for the year ended June 30, 2001, and have issued our report thereon dated September 14, 2001. We conducted our audit in accordance with auditing standards generally accepted in the United States and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

### Compliance

As part of obtaining reasonable assurance about whether Covenant House New Orleans' financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

### Internal Control Over Financial Reporting

In planning and performing our audit, we considered Covenant House New Orleans' internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may

occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of the board of directors, management and the Office of Legislative Auditor, State of Louisiana, and is not intended to be and should not be used by anyone other than these specified parties.

*Ernst & Young LLP*

September 14, 2001



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The Board of Directors  
Covenant House New Orleans

In planning and performing our audit of the financial statements of Covenant House New Orleans (CHNO) for the year ended June 30, 2001, we considered its internal control to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on internal control. During our audit, the following matters came to our attention that we believe merit your consideration.

#### **Participant Rent Calculation**

During our testing of compliance for the ROP program, we noted that not all participant files included a document showing the calculation of rent. As the calculation of rent is based on participation income, the rent can be recalculated. However, due to the importance of compliance and the fact that files are frequently needed for review, we recommend that management consider including such a document in all participant files to provide adequate back-up for calculations and to aid in more efficient reviews of the participant files.

#### ***Management's Response***

CHNO has since revised our procedures for supporting rent calculations. CHNO understands the importance of compliance with respect to this federally funded transitional living program, and believes this isolated occurrence has simply strengthened our resolve to ensure the completeness of our participant files.

#### **Recognition of Grant Revenue**

As part of our audit procedures, we tested certain contributions and the related receivable amounts. During this procedure, we noted that the full award amount of a reimbursement-type grant was recorded as revenue and accrued as a receivable in the current year. However, expenditures related to the grant for the current year were not for the entire amount of the grant award. For reimbursement type grants, revenue is to be recognized when the related expenditures have been incurred. We recommend that management record grant revenues and the related receivables when the amounts have been earned.



***Management's Response***

The grant award in question was originally recorded as an unconditional promise to give with a donor-imposed restriction. While the grant agreement with this particular organization did specify that we would be reimbursed for costs incurred associated with the restriction, we believed it not to be a donor-imposed condition. We followed the Statement of Financial Accounting Standards No. 116 in recognizing the grant as a contribution since there was no exchange transaction involved, and the services we are to provide benefit the population of clients we serve. CHNO does, however, understand the spirit of your recommendation, and will record all future donor agreements with cost reimbursement language as conditional promises to give; hence, recognizing the contribution when the condition is met or cost incurred.

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This letter is intended solely for the information and use of management and the board of directors of Covenant House New Orleans and Covenant House New York and is not intended to be and should not be used by anyone other than these specified parties.

*Ernst + Young LLP* (f

September 14, 2001